

AR21



duconTM

new
concentrated
antacid

Duration through concentration

Each teaspoonful (5 ml.) contains aluminum hydroxide, 720 mg.; magnesium hydroxide, 350 mg.; and calcium carbonate, 375 mg.

Average sodium analysis does not exceed 15 mg per teaspoonful

For adult dosage see side panel.

Warning: Information on the safety and efficacy of "Ducon" in children is not available, therefore, its use in children under 12 years of age is not recommended.

SHAKE WELL. KEEP TIGHTLY CLOSED. DO NOT FREEZE. KEEP OUT OF REACH OF CHILDREN.

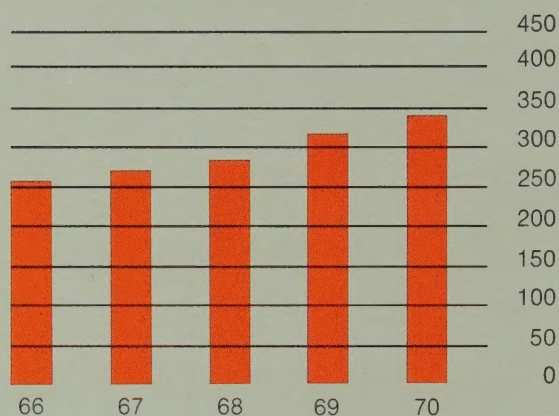
Smith Kline & French Laboratories, Philadelphia, Penna. 19101

10 FL. OZ. (296 ml.)

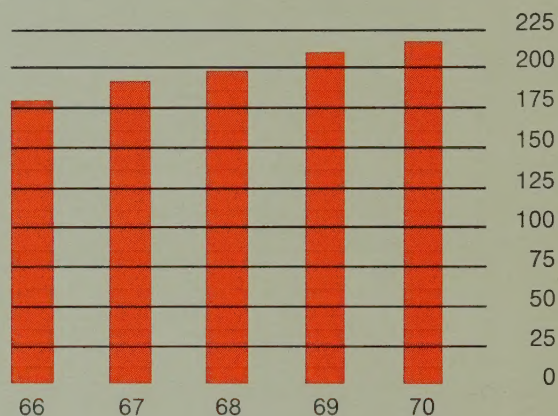
HIGHLIGHTS

	1970	1969
Sales	\$347,023,000	\$317,290,000
Earnings before income taxes	78,224,000	86,744,000
Net earnings	43,654,000	40,826,000
Per share of common stock:		
Earnings	\$3.01	\$2.81
Dividends	2.00	2.00
Shareholders' equity	192,477,000	175,748,000
Research and development expenses	31,313,000	29,066,000
Capital expenditures	17,601,000	12,620,000
Number of shareholders of record	18,648	18,950

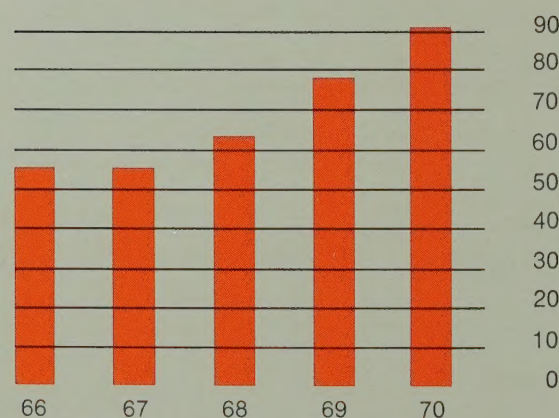
Total Sales
(millions)



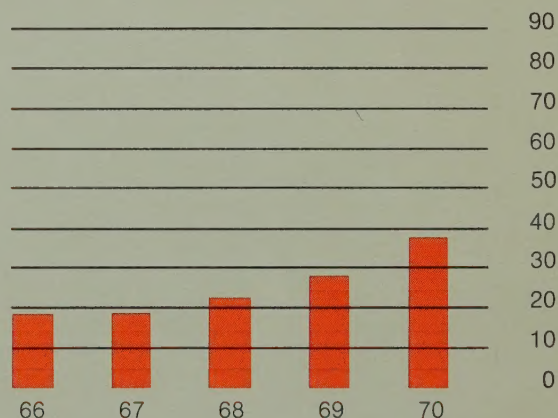
Pharmaceutical Sales
(millions)



Consumer Sales
(millions)



Services, Instrumentation & Other Sales
(millions)



COVER: 'Ducon', SK & F's new liquid antacid, offering duration through concentration—available at drugstores without prescription.

TO OUR SHAREHOLDERS

The year 1970 was an eventful one in the history of your Company. It was marked by the continued pursuit of planned change, based on our strategy of building on our strengths as we seek new opportunities. Many events contributed to the overall results of the Company as we attained new peaks in sales and earnings.

Sales were \$347,023,000, a 9% increase over 1969. Net income was \$43,654,000, or \$3.01 per share, a 7% increase over 1969.

These results were achieved in spite of a decline in pretax profits of \$8,520,000, or 10%.

The decrease in pretax profits is attributable to our decision early in the year to reduce the price of our tranquilizer Thorazine® and to our large investment spending programs. We were able to compensate for this decline because of lower income taxes resulting from the inception of our Puerto Rican manufacturing operations and the reduction in the federal income tax surcharge. Under a contractual agreement, our Puerto Rican tax benefits continue for a period of 10 years.

1970 was an active year for new product introductions. Many are highlighted in this annual report. While we do not expect all of them to attain major sales levels in the very near future, they are an indication of the growing vitality of our operating centers, which function on a decentralized basis conducive to creativity and growth. Most of the operating centers moved forward during the year. Some, like our proprietary drug business, Norden Laboratories, our veterinary subsidiary, and Avoset, our specialty foods subsidiary, made great progress, while our instrument businesses experienced moderate growth rates slowed somewhat due to general economic conditions. In international markets, our businesses continued to grow with sales increasing 13% to \$80,542,000, and net earnings 11% to \$9,204,000; our net assets abroad amounted to \$51,309,000 at December 31.

The year was also marked by continued heavy investment spending for the future in prescription drug research and development. I believe that we are making considerable progress, and I have confidence in the quality of our research scientists and their programs. We intend to continue our major dedication to prescription drug research.

In other investment areas, progress is also evident. The growing sales of our Love Cosmetics, introduced two years ago, are especially gratifying.

Along with others in our industry, we face some uncertainty in the future with respect to the actions resulting from the National Academy of Sciences/National Research Council reviews of drug products now being marketed. We have voluntarily withdrawn several small-volume products where extensive and costly diversion of scientific resources was not justified in light of relatively low use and other therapy available. With those products for which there is a substantial medical need, we are doing as much R&D work as necessary to satisfy and to anticipate the government's demands for additional evidence of efficacy.

In 1971, we plan to continue to broaden the base of the Company with the introduction of new products and the expansion of existing businesses and facilities.

Since the changes in your Board of Directors which occurred or were anticipated early in 1970 and were reported in our last annual report, one additional change took place during the year. In May of 1970, Dr. Samuel P. Martin was elected a Director. He is a distinguished medical researcher and Visiting Professor of Preventive Medicine at Harvard University.

At the January 1971 meeting of the Board of Directors, Mr. Walter A. Munns, Chairman of the Board, announced his intention to retire in April of 1971. (See the

Chairman's message on the following page.) Mr. Munns has contributed 42 years of valuable service to your Company, beginning as a member of the Medical Promotion staff in 1929, rising to the position of President and Chief Executive Officer in 1958 and to Chairman of the Board in 1966. We all feel a debt of gratitude to Mr. Munns, and the officers of the Company join me in extending best wishes to him on his forthcoming retirement.

In anticipation of Mr. Munns's retirement, Mr. Robert F. Dee, formerly Group Vice President, Consumer, Animal and Instrument Products, has been elected Executive Vice President to assist me in the administration of the Company. Mr. Dee will have direct responsibility for operations, while the Corporate Staff functions will continue to report to me. Mr. Dee joined the Company in 1948. He has had broad experience in our pharmaceutical operations and in recent years has been responsible for the development and growth of our diversification efforts.

Dr. Lewis E. Harris, who for many years had been President of Norden Laboratories, has been elected a Group Vice President, and is responsible for Medical Services and Instruments, and Animal Health Products. Dr. Harris has also been elected to the Board of Directors.

Mr. Alfred J. D'Angelo, who was Vice President, Corporate Technical Services, has been elected a Group Vice President and assigned the additional responsibility for supervision of our Ultrasonic Products Group.

Mr. Harold A. Clymer, who was Vice President, Research and Development—Pharmaceuticals, was named to the new position of Vice President, Corporate Business Development; and Dr. Bryce Douglas, formerly Vice President, Research, was elected a Vice President of the Corporation, and will head Pharmaceutical Research and Development.

I look forward to 1971 with confidence in the ability of our people to cope with the opportunities and challenges that lie ahead. The dedication, versatility and creativity of SK&F's employees are your Company's most important resources.

Thomas M. Rauch

Thomas M. Rauch
President

Philadelphia, Pennsylvania, February 23, 1971

Thomas M. Rauch

Walter A. Munns



A MESSAGE FROM THE CHAIRMAN OF THE BOARD

At the regular January meeting of your Board of Directors, I proposed that the Board adopt a change in its By-laws so that no person can be elected a director after reaching 69 years of age, and no person can be elected Chairman of the Board after reaching 65 years of age, rather than 72 years of age as heretofore provided.

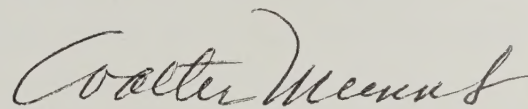
The Board agreed with my recommendations and passed a resolution to that effect.

My recommendations regarding the retirement age for Board membership reflect my strong conviction that Smith Kline & French Laboratories should have younger leadership at the policy-making level, as well as in its day-to-day management.

Under these changes in our By-laws, I would still be eligible for consideration as a director at the time of the annual meeting of shareholders on April 26, 1971. However, since I will be but a few weeks away from ineligibility on that date, I have decided not to stand for reelection.

It is with sadness, of course, that I have made this decision, since my more than 42 years' association with your Company have been gratifying and fulfilling. I have seen SK&F grow from a fledgling pharmaceutical firm to a large worldwide corporation with a significant position in most of our fields of interest.

At the helm of SK&F at present we have a management team that has already accomplished a great deal in setting new goals for SK&F's expansion in the years ahead. I have great confidence in their ability to continue your Company's growth.

A handwritten signature in dark ink, reading "Walter Munns". The signature is written in a cursive, flowing style with a large, prominent "W" and "M".

Walter A. Munns

PHARMACEUTICALS, HUMAN AND ANIMAL

Sales of some of our major drug products increased in 1970, and we successfully introduced new products in domestic and international markets.

We began marketing Cendevax®, SK&F's German measles (rubella) vaccine, during the year; sales results have been gratifying. In addition to the United States, the SK&F vaccine has been approved for use in 19 countries, in many of which it is the sole approved rubella vaccine.

Mass vaccination campaigns against rubella have been launched by the governments of a number of countries, and 'Cendevax' has achieved the leading position in the government immunization programs of Australia, New Zealand, Canada and England. In New Zealand alone, the government has instituted a program to vaccinate a half million people from a population of 2,700,000. The desirability of achieving this degree of population protection in other countries suggests a significant potential for use of this new SK&F product.

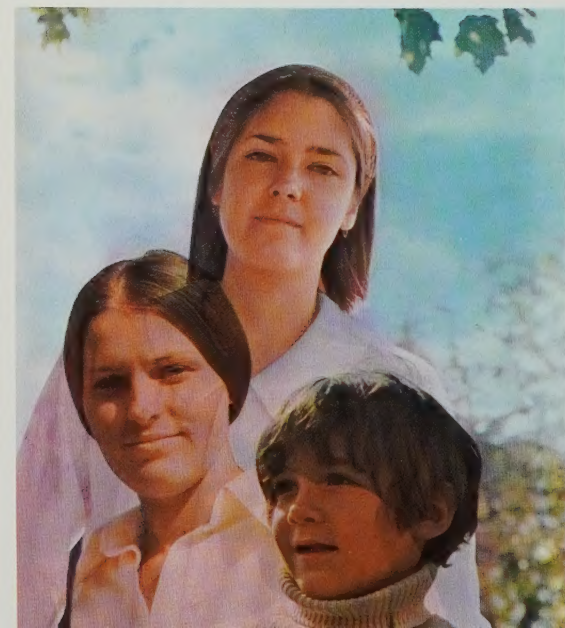
We are supplying a sizable portion of the rubella vaccine used in immunization programs in the United States. The U. S. Government last year contracted for more than 6 million doses of the SK&F vaccine.

Among our domestic introductions last year was Eskalith®, SK&F's brand of lithium carbonate, used in the treatment of the manic phase of the manic-depressive psychosis. Although the product is a major contribution to the therapy of this particular mental disease, sales of 'Eskalith' are not likely to achieve high volume because of the relatively limited number of patients suffering from the condition.

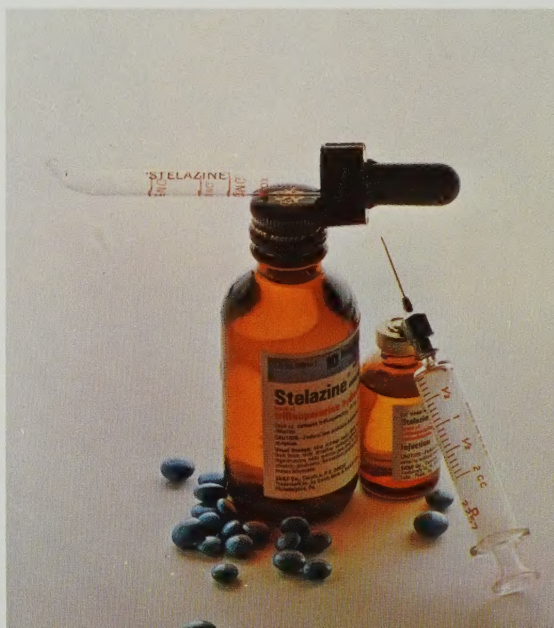
We received U. S. Government approval in 1970 to market 'Ducon', a new concentrated liquid antacid, and the product was introduced in the United States early this year.

SK&F entered into an agreement with Wampole Laboratories, Division of Denver Chemical Manufacturing Company, to market Urispas®, a new urinary tract spasmolytic indicated for symptomatic relief of various urologic disorders. We plan to begin marketing the product during 1971. We also entered into an agreement with International Chemical and Nuclear Corporation to market ICN's levodopa, a new drug for the treatment of Parkinson's disease. Marketing approval was received from the

'Cendevax'



'Stelazine'



'Ducon'



government in January, and SK&F is planning to introduce the product under the trademark 'Levopa' during the first quarter of 1971.

Among our international introductions was 'Stafytracine', an antibiotic product, which we launched in Belgium. Approval for purchase under the government health insurance plan has enabled us to achieve widespread use quickly in that country.

'Jalonac', a tranquilizer previously launched in Australia, was introduced in Germany. In Mexico, we introduced 'Duatrol', an antacid-antiflatulent product first marketed in Canada.

Last year, we reduced the price of all forms and strengths of Thorazine®, our major tranquilizer. This price cut will produce substantial savings for thousands of outpatients undergoing long-term treatment for mental illness, and many hospitals will be able to treat more patients with the resulting savings. We believe these reductions will place us in a better long-term competitive position, too, since the patent on the drug expired in July, 1970.

DIAGNOSTIC PRODUCTS FOR PHYSICIANS

In the fourth quarter of 1970, we introduced SK&F's Hemocult® slides through our pharmaceutical sales force. These slides enable the doctor to make rapid, simple and inexpensive determinations in his office for bleeding in the gastrointestinal tract. They have proved effective as an aid in detecting cancer of the colon, a principal cause of death. We completed plans for the introduction to the medical profession this year of SK&F's 'Clinicult' tubes. These microbiological tubes make it possible for the physician to test in his office for the presence of microorganisms that may cause disease.

PUERTO RICAN FACILITY

In 1970, we opened a facility in Puerto Rico that is almost entirely staffed by Puerto Rican nationals. We are manufacturing our tranquilizer Stelazine® at this location, and as the year ended we had completed arrangements for the production of two diuretic products, Dyazide® and Dyrenium®.

INTERNATIONAL GROWTH

In December, we completed a new 30,000-square-foot manufacturing facility on an 80-acre site in Bangalore, India, and we made a factory extension, tripling the size of existing facilities, in Karachi, Pakistan.

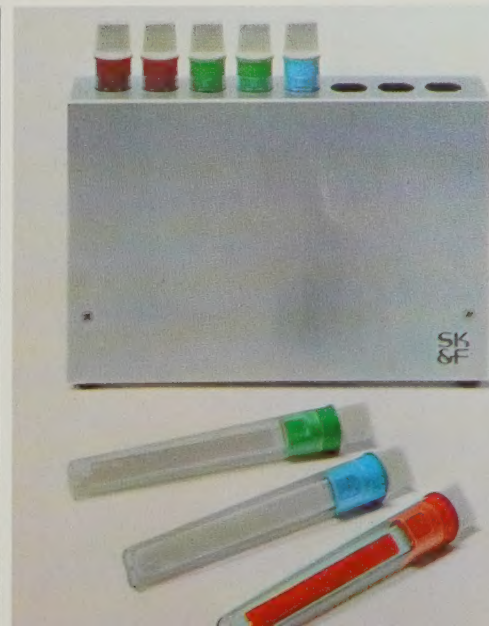
'Hemocult' slides



Puerto Rico



'Clinicult' tubes



At our European headquarters in Genval, Belgium, we expanded vaccine production facilities, with the completion of a new building. Construction neared completion on a new manufacturing plant near Madrid, Spain.

In the Far East, we expanded our marketing efforts in Indonesia. The political situation in this area appears to be more stable, and we believe the archipelago of more than 125 million persons offers outstanding sales opportunities.

We proceeded with plans for the introduction of several new products in Latin America. Pharmaceutical registrations for many of our products are pending in Argentina, Brazil, Venezuela and Peru. Although regulatory changes have increased the length of time required to obtain product approval in these countries, we are hopeful that licenses will be issued to permit marketing of a number of products in 1971.

RESEARCH AND DEVELOPMENT

SK&F pharmaceutical Research and Development completed the extensive animal and clinical testing necessary for approval to market 'Cendevax', 'Eskalith' and 'Ducon', three of the new products described on page 6.

Development work was also done to market the 'Hemocult' slide. However, despite the thorough scientific evaluation done in the late 1960's on Alavon[®], a tranquilizer combination in sustained release form, agreement has not been reached with the Food and Drug Administration.

In the laboratory, emphasis continues on research in selected areas of medical need. Truly preventive or curative drugs are needed for many chronic, debilitating diseases, and these will come from long-range, fundamental research. SK&F is doing such research in the respiratory, antiarthritic, antiobesity and gastrointestinal areas.

At the same time, the Company is carrying on short-range research in these areas and in others where improvement over drug therapy now available is vitally required.

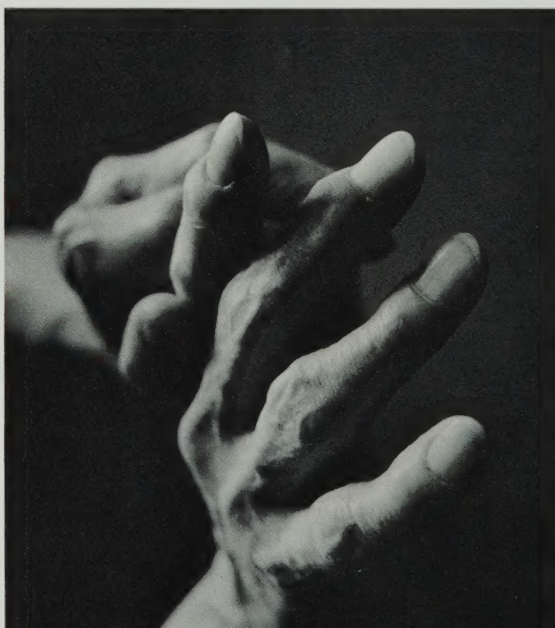
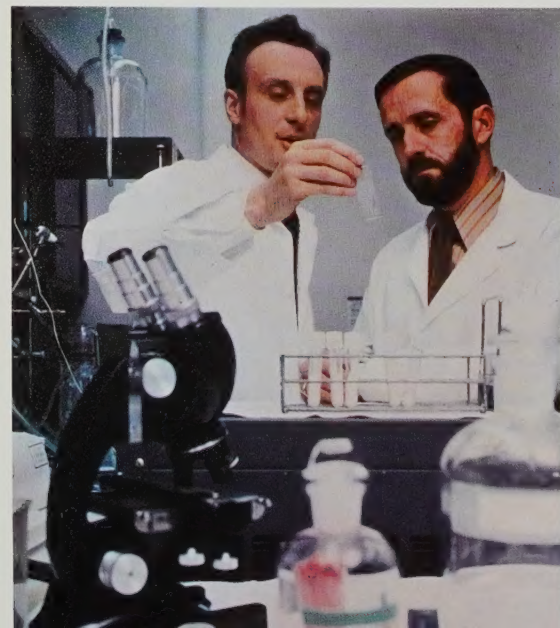
During 1970, our respiratory research team, widely known in medical and scientific circles for its study of respiratory mucus (mucus is believed to be the key to treatment of lung diseases like bronchitis and emphysema) added to its scientific achievements. It produced symptoms like those of bronchitis in an animal model, a difficult and important step toward understanding bronchitis in man.

Meanwhile, the goal of the team's short-range mission is a bronchodilator to relieve symptoms in man. Last year we reported that a compound was well advanced

Respiratory research

Arthritis research

Obesity control



in clinical testing. This compound failed to satisfy our criteria for the marketplace, but because of our scientific depth in this field, one other drug candidate is already being tested in the clinic, with several more promising bronchodilator compounds in reserve.

In another area, antiviral research, we are now aiming at a broader target. Last year the primary objective was a drug to treat the common cold. Antirhinoviral compounds tested in limited clinical trials did not have enough activity to continue in development, but experience in this area shows that the potential for broad-spectrum antiviral compounds exists.

Our arthritis researchers report drug candidates of high potential. They are continuing to probe the why and how of rheumatoid arthritis in their long-range research, and so are deepening their pool of knowledge of the disease.

In obesity control, too, long-range basic research is being accompanied by short-range efforts to produce drug candidates that measure up to specific criteria. One such candidate compound is being tested in the clinic.

SK&F believes that these research programs will meet the need for drugs of the future, not so much in numbers of compounds—the pharmaceutical industry has seen lists of compounds in clinical trial dwindle disappointingly as experience with them grows—but because of the quality and depth of the generating programs behind each.

The Company's R&D philosophy can be summed up simply: breakthrough science coupled with appropriate short-range research, managed properly, is consonant with both corporate profitability and public need.

We have initiated a program to further increase the cooperative effort between our substantial research facilities overseas and the domestic research operation. The goal is to achieve a more rapid worldwide introduction of the fruits of SK&F research, as well as to bring to bear the benefits of the thinking of R&D personnel in our various international facilities.

ANIMAL HEALTH PRODUCTS

Our Norden Laboratories again had a record year in sales and earnings; it is now the leading company in the domestic ethical veterinary products business. A major portion of its growth in 1970 came from products Norden has introduced in recent years. The Enduracell® line of canine distemper, hepatitis, and leptospira vaccines; Endurall-R®, a rabies vaccine; and Felocine®, a feline distemper vaccine, are now leaders in their respective markets. Norden's products for large animals also did exceptionally

'Endurall-R'



'Felocine'



'Spanbolet'



well in 1970. A patent on the company's sustained release sulfamethazine Spanbolet[®] tablet for cattle was granted last year.

Norden maintains an active and productive R&D program, focusing on specialty biologicals and pharmaceuticals for use by the veterinarian. Approval is pending on a new vaccine for the prevention of bovine virus diarrhea, and Norden has submitted data to the government on two new products for small animals.

Our feed additives research center, located near West Chester, Pennsylvania, is making good progress in seeking compounds to improve feed efficiency in cattle and sheep. Another program is aimed at developing improved compounds to eliminate the parasite burden in livestock.

In international markets, 1970 was a year of progress for our broad spectrum worming compound, parbendazole. After its first full year in New Zealand and Australia, parbendazole has achieved a substantial share of the market. The product was introduced in Mexico in March, and we plan to introduce it for the first time in several European countries in 1971.

Our veterinary antibiotic virginiamycin has emerged as a bright prospect in SK&F's international market as we gain more experience with its use in different animal species. The role of antibiotics in animal feeds came under increasing world scrutiny in 1970 after publication of the Swann Committee Report in Great Britain. As a result of this study by leading scientific authorities in the United Kingdom, virginiamycin will be one of only three antibiotics freely available for continuous feeding at low levels to increase growth rate and feed efficiency in poultry and swine in the United Kingdom. It is believed that the regulatory authorities in some of our other major markets will consider the need for similar control.

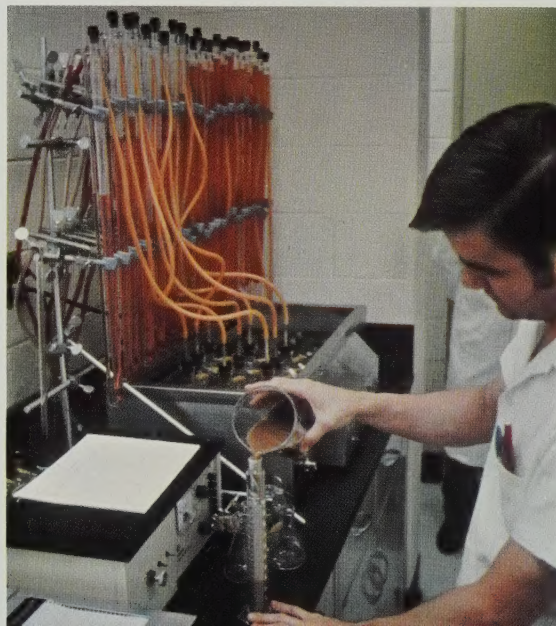
In Belgium, virginiamycin continues to hold a large share of the antibiotic swine feed additive market, and we plan to extend the marketing of this product to other international locations as soon as possible. It was introduced in 1970 for poultry in South Africa, Australia and Japan, and for swine in Holland. New species introductions are planned in many more locations, and we believe the climate will continue to be favorable to its increased use worldwide.

We are heavily engaged in animal health research in Belgium, South Africa, Australia and the United Kingdom. During 1970, our Belgian subsidiary, Recherche et Industrie Thérapeutiques, continued research and development on a vaccine that will be effective against Marek's disease (avian leukosis), which afflicts poultry and causes great

Worming compound, parbendazole

Feed additive research

'Contac'



economic loss. R.I.T. has made considerable progress in developing a vaccine and hopes to bring it to market early this year.

CONSUMER PRODUCTS

During 1970, Contac® continued to be the leader in sales of cold remedies in America, achieving its highest sales since its introduction in 1961. Distribution of the product was expanded during the year to include outlets other than pharmacies.

Our Menley & James Laboratories, Ltd., introduced two new products—C3®, a cold-cough capsule that provides temporary relief from nasal congestion and coughing, and Sine-Off®, an analgesic and fast-acting decongestant that relieves both the pain and pressure of sinus headache.

'Contac' sales were strong in Japan and West Germany, and in Canada the product continued to maintain market leadership. As extensions of the line, 'Contac' Throat Lozenges were introduced in Australia early in 1970 and 'Contac' Cough Control was test-marketed in Western Canada.

LOVE COSMETICS

Love Cosmetics by Menley & James continued to be well received in 1970, with increased sales and acceptance by the trade and public. We believe that this new business of the Corporation is now firmly established. During the year, Menley & James formed a special cosmetics sales force to handle Love Cosmetics exclusively. The line was broadened with the introduction of eye products, skin gels, bath products and other items.

Love Cosmetics were introduced in Canada in April, and initial acceptance, both by the trade and by consumers, was outstanding. The line is sold in Canada in drugstores and major department stores and by mass merchandisers. The line was also introduced last year in Puerto Rico, where it gained immediate popularity. It should be noted, however, that this new business is still in the investment spending stage, and is not expected to contribute to earnings in the near future.

Our Sea & Ski suntan products operation had an off year, chiefly because we were outspent in promotion by two new national lines of suntan products. During 1970, we consolidated Sea & Ski's administrative, financial and marketing efforts within Menley & James to provide more effective marketing of the Sea & Ski line in the face of

'C3' and 'Sine-Off'



Love Cosmetics



intensified competition. This consolidation will also result in economies. The Sea & Ski line was introduced in Italy, France and Spain last year.

FOOD PRODUCTS

Our Avoset Food Corporation had a record-breaking year in both sales and earnings. Sales of Avoset products in Pure-Pak cartons continued to be a major contributor to sales volume, and the company expanded its line to include new products, such as half and half, chocolate drink and shakes.

During 1970, Avoset successfully enlarged its markets for custom-packed convenience foods. The company now provides both dairy and nondairy items in Portion-Pak containers for hotel and restaurant chains, institutional food suppliers and most of the major airlines. Last year, Avoset developed several new specialty products for this line, including puddings and a nondairy creamer high in polyunsaturated fats.

MEDICAL SERVICES AND INSTRUMENTS

During 1970, our Smith Kline Instruments, Inc. announced a number of significant new developments in biomedical instrumentation designed to assist physicians and nurses in caring for their hospitalized patients, especially those who are critically ill.

Early in the year, SKI introduced a new computer especially for use in hospital intensive care and coronary care units. When used with SKI's 'Lifeguard Systems'[™] Monitoring Equipment, the computerized system can be programmed to analyze each heartbeat of every patient being monitored and to detect arrhythmias, the early indications of impending cardiac crisis.

Another new development from SKI, the Doptone[®] Fetal Monitoring System, will be in production this year. When used in hospital labor and delivery rooms, this ultrasonic system can detect early signs of fetal distress so that appropriate action can be taken to avoid possible brain damage or death for unborn children.

SKI continues to hold its leading position in the field of diagnostic ultrasound. Clinical investigation over the past several years, particularly in cardiology, has established SKI's Ekoline 20[®] as the standard instrument of the industry, and a large body of

'Sea & Ski'

Brown is beautiful.



Avoset on the 747



'Doptone' Fetal Monitoring



medical literature on this SKI product has resulted. The scope and use of the 'Ekoline 20' will soon be expanded with a new soft tissue scanner developed jointly with Svejsecentralen of Copenhagen, Denmark.

SKI has also expanded and strengthened its position in clinical laboratory testing equipment and reagents. Sales of the Eskalab® system doubled in 1970. The 'Eskalab' system of instruments, reagents, and testware simplifies sophisticated methods of testing and shortens the time required by technicians to provide physicians with test results needed to aid in the diagnosis of heart disease, liver ailments and other medical problems.

In 1970, we continued our planned entry into the field of medical laboratory services and now have clinical laboratory testing facilities in seven major population areas in the United States and Canada.

In February, 1970, Straus Clinical Laboratories of Los Angeles became affiliated with SK&F. Bio-Data Systems, Inc. of Sarasota, Florida, joined SK&F in May and merged with Patterson and Coleman Laboratory, Inc., our clinical laboratory facility in Tampa, Florida. During June, the Edmonton Laboratories, Ltd., Edmonton, Canada, and Clinical Laboratories of St. Louis became part of our Clinical Laboratories Division.

Each of SK&F's clinical laboratories is directed by a pathologist who is a recognized leader in this field of medicine. More than 40 pathologists are associated with our clinical laboratories, which employ 700 highly trained technicians and scientific personnel.

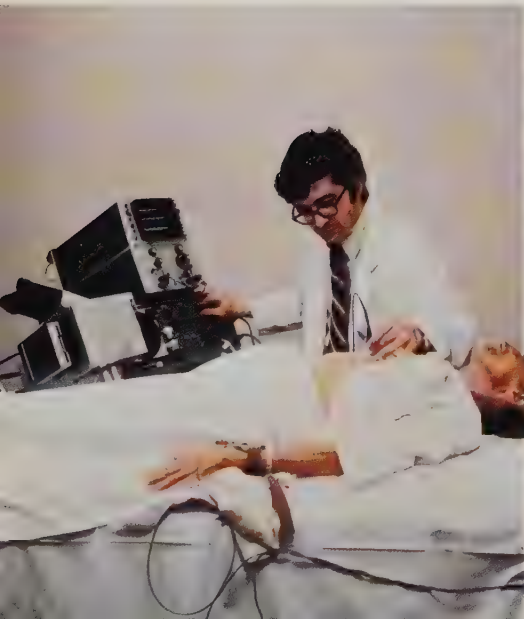
INDUSTRIAL INSTRUMENTATION

Our two ultrasonics companies grew at a somewhat reduced rate in 1970 due to weakness in the national economy and its effect on purchases of capital equipment. However, Branson Instruments achieved a significant profit increase through improvements in operating efficiency and cost controls.

Branson Instruments' position in precision and nondestructive thickness gauging was reinforced in 1970 with the introduction of two new ultrasonic test instruments, the Sonoray® Calipers 103 and 104. Both are portable and display direct digital readout of thickness. Their simplicity of operation and light weight are especially significant in view of the growing requirement for accurate onsite nondestructive tests in power industries.

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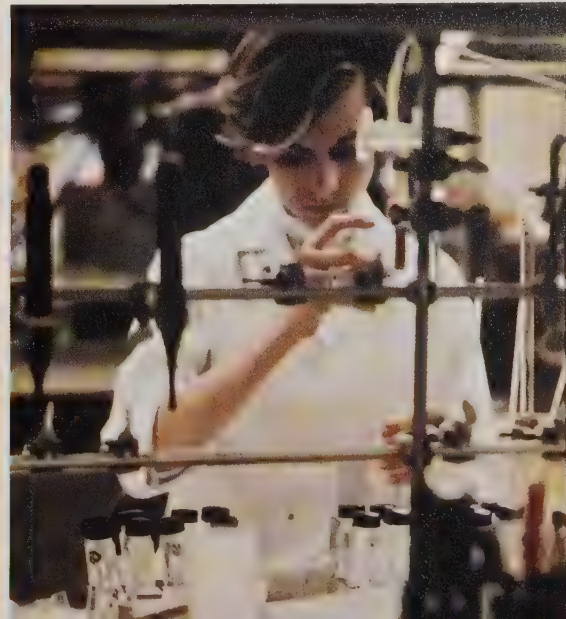
'Ekoline 20'



'Eskalab'



Clinical laboratories



During 1970, Branson Instruments developed a new family of ultrasonic systems for automatic nondestructive testing at production-line speeds. The basic electronic components can be "plugged-in" to mechanical handling machinery on the production line.

Early in 1970, Branson Instruments acquired Aerotech Laboratories, developers and manufacturers of high quality transducers used in all phases of industrial nondestructive testing as well as in some medical applications. The company's overall nondestructive testing capability was further expanded through an agreement with a German firm under which we will market and manufacture electromagnetic nondestructive test equipment.

Branson Instruments' Ultrasonic Cleaning Division continued development of a patented plastic tank, which can be used in applications employing acids and highly corrosive solutions.

Sales of Branson Instruments' products in international markets increased substantially in 1970. In addition to Branson's European manufacturing, sales and service organization, Branson Europa, in the Netherlands, a German subsidiary was formed in Munich to market and service the company's products.

Sales growth of our Branson Sonic Power Company, while also impeded by the slowdown of capital equipment purchases in the United States, continued at a satisfactory pace. Export sales increased sharply. The company now has branch offices in five foreign countries and sales representatives in 24 others.

Ultrasonic assembly methods are gaining increasing acceptance in automotive, furniture and building products markets. In addition to the established use of its ultrasonic power equipment for biological tissue disruption and for rotary machining of hard, brittle materials, Branson Sonic Power introduced new sonic power products last year for tinning and soldering of metals and for metal drilling.

A threadless, ultrasonic sewing machine was introduced late in the year. This machine has specific applications in industry and the apparel field. The new instrument uses ultrasonic energy to produce frictional heat that melts synthetic materials momentarily, causing them to bond.

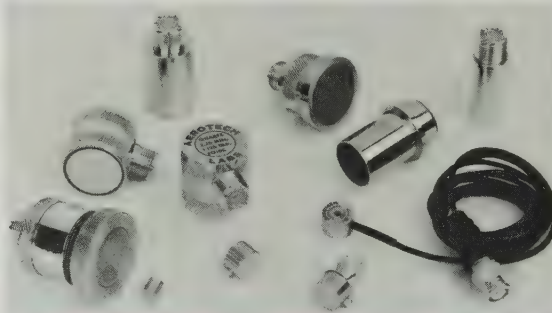
American Polarizers, Inc., manufactures and markets Sun-Bar® polarized material, used to filter out the harmful glare of the sun. This material is used by a number of major manufacturers of sunglasses, ski goggles and other eye safety equipment and also has applications in the aircraft industry, where it is used for windows in jet aircraft. Although starting from a relatively small base, sales of 'Sun-Bar' increased in 1970.

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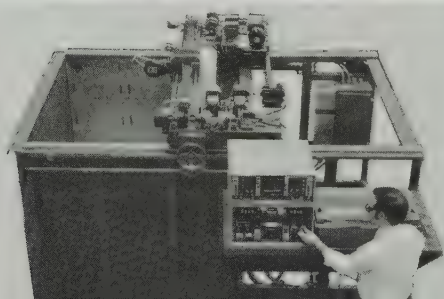
'Sonoray' Caliper
Automatic nondestructive testing



Aerotech transducers
Ultrasonic machining



Threadless, ultrasonic sewing machine



STATEMENT OF CONSOLIDATED EARNINGS

Year ended December 31, 1970 (with comparative figures for 1969)

	1970	1969
CURRENT EARNINGS		
Income:		
Sales	\$347,023,252	\$317,289,908
Interest and other income	<u>4,566,931</u>	<u>4,087,292</u>
	<u>351,590,183</u>	<u>321,377,200</u>
Costs and expenses:		
Material and manufacturing cost of products sold	105,943,155	83,110,214
Marketing, administrative and general	132,661,311	120,707,092
Research and development	31,312,915	29,065,725
Other	<u>3,448,579</u>	<u>1,750,277</u>
	<u>273,365,960</u>	<u>234,633,308</u>
Earnings before income taxes	78,224,223	86,743,892
Provision for federal, state and foreign income taxes (note 2)	<u>34,570,000</u>	<u>45,918,000</u>
Net earnings	<u>\$ 43,654,223</u>	<u>\$ 40,825,892</u>
Net earnings per share—14,522,117 average shares (1969, 14,531,703 average shares)	<u>\$ 3.01</u>	<u>\$ 2.81</u>
Depreciation charged to operations (included above)	<u>\$ 7,656,924</u>	<u>\$ 5,818,698</u>
EARNINGS RETAINED IN THE BUSINESS		
Balance at beginning of year	\$177,132,274	\$171,629,284
Retained earnings of pooled companies as of January 1, 1969 (note 1)	—	131,893
Excess of cost of 108,904 treasury shares exchanged over stated capital of pooled companies (note 1)	—	(6,619,102)
Excess of cost over market value of 38,310 treasury shares issued in connection with acquisitions (note 1)	(233,856)	—
Net earnings for the year	<u>43,654,223</u>	<u>40,825,892</u>
	<u>220,552,641</u>	<u>205,967,967</u>
Deduct cash dividends paid—\$2.00 per share	<u>28,925,306</u>	<u>28,835,693</u>
Balance at end of year	<u>\$191,627,335</u>	<u>\$177,132,274</u>

See accompanying notes to financial statements.

Smith Kline & French Laboratories and Subsidiaries
CONSOLIDATED BALANCE SHEET

December 31, 1970 (with comparative figures for 1969)

	1970	1969
ASSETS		
Current assets:		
Cash	\$ 9,280,647	\$ 10,879,401
Marketable securities, at cost which approximates market	15,171,051	37,762,993
Accounts and notes receivable, less provision for losses, \$1,059,106 (1969, \$632,158)	68,832,948	49,985,662
Inventories—generally at the lower of average cost or market:		
Finished products	16,316,469	12,530,211
Work in process	13,412,706	13,633,835
Raw materials and supplies	21,789,316	15,389,274
	<u>51,518,491</u>	<u>41,553,320</u>
Prepaid expenses	4,046,012	3,688,287
Total current assets	<u>148,849,149</u>	<u>143,869,663</u>
Investments and other assets, at cost	3,153,688	1,339,538
Plant and equipment, at cost:		
Land	6,703,514	6,436,290
Buildings	76,768,223	70,004,741
Machinery and equipment	60,262,787	53,442,705
	<u>143,734,524</u>	<u>129,883,736</u>
Less accumulated depreciation (note 2)	57,783,980	53,023,674
Total plant and equipment	<u>85,950,544</u>	<u>76,860,062</u>
Goodwill, patents and other intangibles	26,308,469	20,478,852
	<u>\$264,261,850</u>	<u>\$242,548,115</u>

See accompanying notes to financial statements.

	1970	1969
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Loans payable	\$ 15,154,999	\$ 14,222,820
Accounts payable	18,959,712	15,161,546
Accrued expenses	22,835,204	17,881,594
Income taxes	<u>14,834,630</u>	<u>19,533,767</u>
Total current liabilities	<u>71,784,545</u>	<u>66,799,727</u>
Shareholders' equity:		
Common stock without par value. Authorized 18,000,000 shares; issued 14,641,504 shares at stated value (note 3)	7,124,290	7,124,290
Earnings retained in the business	<u>191,627,335</u>	<u>177,132,274</u>
	198,751,625	184,256,564
Less 107,599 shares of common stock in treasury, at cost (1969, 145,909 shares)	<u>6,274,320</u>	<u>8,508,176</u>
Total shareholders' equity	<u>192,477,305</u>	<u>175,748,388</u>
	<u><u>\$264,261,850</u></u>	<u><u>\$242,548,115</u></u>

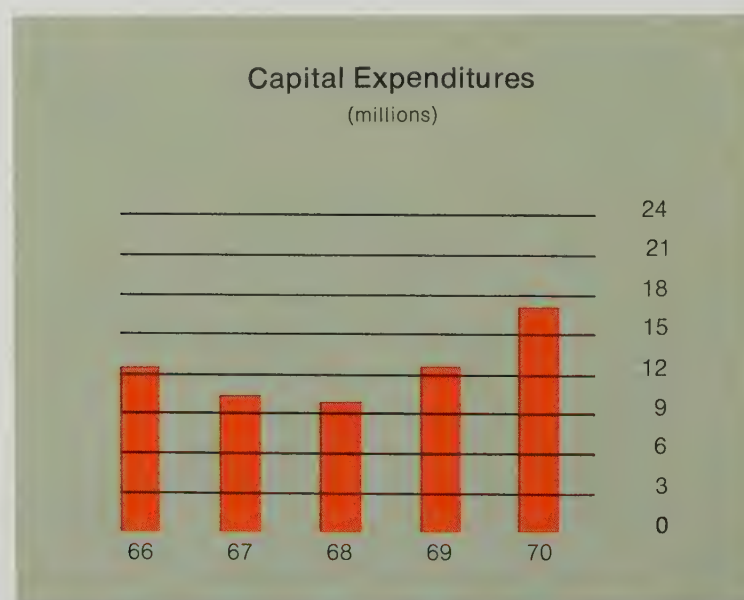
Smith Kline & French Laboratories and Subsidiaries

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1970 (with comparative figures for 1969)

	1970	1969
SOURCE OF FUNDS		
Net earnings for the year	\$43,654,223	\$40,825,892
Depreciation	7,656,924	5,818,698
Decrease (increase) in treasury stock	2,233,856	(5,991,553)
Total source of funds	<u>53,545,003</u>	<u>40,653,037</u>
APPLICATION OF FUNDS		
Dividends	28,925,306	28,835,693
Capital expenditures	17,600,743	12,620,382
Excess of cost over underlying assets of subsidiaries acquired during the year	6,451,973	5,009,403
Other, net	572,313	(2,087,088)
Total application of funds	<u>53,550,335</u>	<u>44,378,390</u>
Decrease in working capital	5,332	3,725,353
Working capital at beginning of year	<u>77,069,936</u>	<u>80,795,289</u>
Working capital at end of year	<u><u>\$77,064,604</u></u>	<u><u>\$77,069,936</u></u>

See accompanying notes to financial statements.



NOTES TO FINANCIAL STATEMENTS

December 31, 1970

ACCOUNTANTS' REPORT

(1) BASIS OF CONSOLIDATION, ETC.

The consolidated financial statements include the accounts of Smith Kline & French Laboratories and its domestic and foreign subsidiaries except Smith Kline Credit Corporation, a minor subsidiary formed during the year, which is carried at equity.

During the year the Company acquired a number of small companies for cash and 147,214 shares of treasury stock. Two of the acquisitions were accounted for as poolings of interests and the 1969 financial statements have been restated to include their accounts. The remainder of the companies acquired were accounted for as purchases and resulted in a charge to goodwill of approximately \$6,500,000. Certain of the acquisition agreements provide for additional payments to a maximum of approximately \$9,000,000 contingent upon the attainment of specified performance levels by the acquired companies.

The accounts of foreign subsidiaries and branches included in the consolidated financial statements have been translated into U. S. dollars as follows: plant and equipment at approximate U. S. dollar equivalent of cost at dates of acquisition; all other accounts at appropriate closing rates of exchange, except for depreciation charges which have been based on the U. S. dollar cost of the related assets. International operations are summarized below:

	1970	1969
Sales	\$80,542,000	\$71,314,000
Net earnings	9,204,000	8,268,000
Net assets	51,309,000	43,531,000

(2) DEPRECIATION AND INCOME TAXES

The straight-line method of depreciation is used for accounting purposes and accelerated methods for income tax purposes. The resultant deferred income taxes, not material in amount, are included in the balance sheet caption "Income Taxes."

The income of a domestic subsidiary which began operations in Puerto Rico in 1970 is exempt from Puerto Rican and United States income taxes through 1979. This exemption had the effect of increasing 1970 net earnings by approximately \$5,000,000.

(3) STOCK OPTION PLAN

Under the Company's qualified stock option plan approved by the shareholders in 1966, there were options outstanding for 110,725 shares of common stock at the beginning of the year and 115,460 shares at the end of the year. During the year, options for 28,085 shares were granted at fair market values of \$46.44 to \$51.75 per share; no options were exercised and options for 23,350 shares were cancelled. At the end of the year, there were 284,540 shares available for future granting under the plan.

(4) RETIREMENT PLANS

The Company and twelve of its subsidiaries have trustee, non-contributory pension plans which provide retirement benefits for eligible employees. In connection with such plans, earnings have been charged in 1970 with \$2,857,000 applicable principally to current costs as past service costs have been substantially funded. Certain other subsidiaries have separate retirement plan arrangements which include insured plans and unfunded plans.

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1500 WALNUT STREET
PHILADELPHIA, PA. 19102

The Shareholders

Smith Kline & French Laboratories:

We have examined the consolidated balance sheet of Smith Kline & French Laboratories and subsidiaries as of December 31, 1970 and the related statement of earnings and the statement of consolidated source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above mentioned financial statements present fairly the financial position of Smith Kline & French Laboratories and subsidiaries at December 31, 1970 and the results of their operations and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

February 23, 1971

Transfer and Dividend Disbursing Agents—The Philadelphia National Bank, Philadelphia; Morgan Guaranty Trust Company of New York

Registrars—The Fidelity Bank, Philadelphia; First National City Bank, New York

TEN-YEAR SUMMARY

OPERATING RESULTS	1970	1969	1968
Sales	\$347.0	\$317.3	\$283.0
Interest and other income	4.6	4.1	4.2
Material and manufacturing cost of products sold	105.9	83.1	63.5
Marketing, administrative and general expenses	132.7	120.7	103.7
Research and development expenses	31.3	29.1	28.2
Other expenses	3.5	1.8	1.9
Earnings before income taxes	78.2	86.7	89.9
Provision for income taxes	34.5	45.9	47.6
Net earnings	43.7	40.8	42.3
Depreciation charged to operations (included above)	7.7	5.8	6.2
Net earnings per share	\$3.01	\$2.81	\$2.92
Dividends paid per share	2.00	2.00	2.00

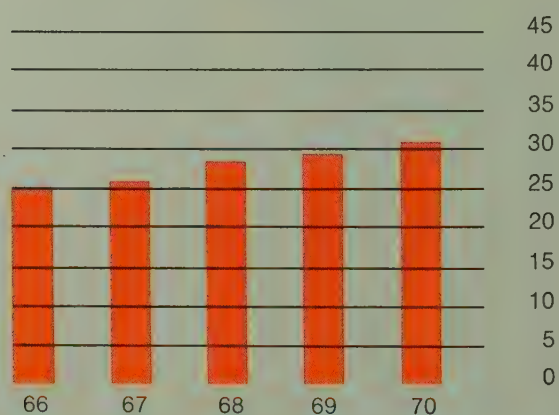
FINANCIAL

Current assets	\$148.9	\$143.9	\$134.0
Current liabilities	71.8	66.8	53.2
Working capital	77.1	77.1	80.8
Plant and equipment (net)	86.0	76.9	67.5
Total assets	264.3	242.5	223.1
Capital expenditures	17.6	12.6	9.9
Shareholders' equity	192.5	175.7	169.9
Number of employees	10,201	9,581	8,989

Figures for 1969 have been restated for companies acquired in 1970 as poolings of interests; effect on prior years was not material.

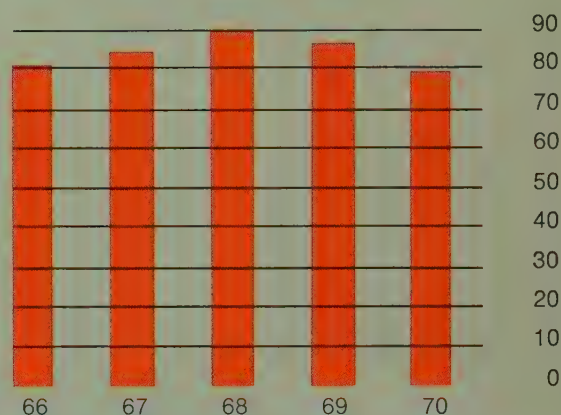
Research & Development Expenses

(millions)



Earnings Before Income Taxes

(millions)



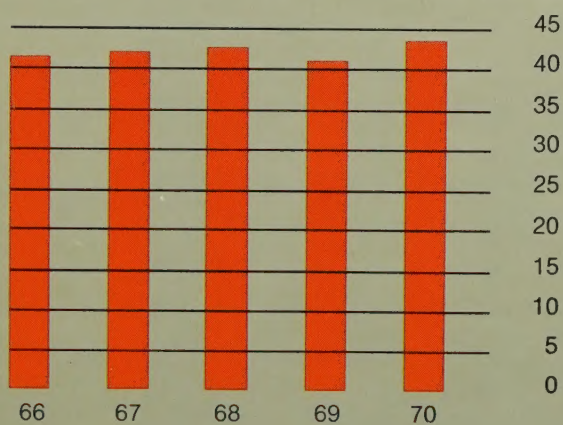
Dollar amounts in millions except per share figures

1967	1966	1965	1964	1963	1962	1961
\$260.0	\$251.4	\$243.7	\$218.2	\$203.5	\$180.8	\$161.7
4.1	3.2	3.3	3.0	2.3	2.1	1.7
57.1	52.9	55.9	51.4	49.0	45.6	43.2
96.8	95.2	84.1	72.4	66.5	54.8	45.6
26.0	25.1	23.8	20.0	18.2	17.1	14.3
1.2	1.1	.5	.6	.2	.4	.5
83.0	80.3	82.7	76.8	71.9	65.0	59.8
40.9	39.0	40.5	38.1	37.9	34.5	32.7
42.1	41.3	42.2	38.7	34.0	30.5	27.1
5.6	5.1	4.4	3.6	3.3	3.1	3.0
\$2.90	\$2.84	\$2.89	\$2.64	\$2.33	\$2.08	\$1.85
2.00	2.00	1.85	1.55	1.50	1.35	1.25

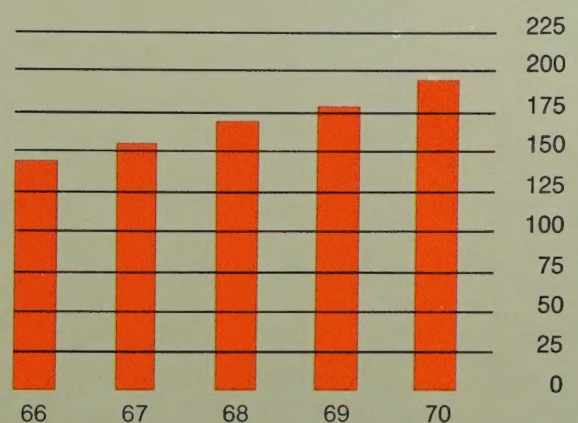
\$118.2	\$107.1	\$107.4	\$115.7	\$103.6	\$87.6	\$72.1
43.9	42.9	47.6	44.5	42.3	36.7	31.5
74.3	64.2	59.8	71.2	61.3	50.9	40.6
64.5	60.2	53.6	46.0	39.2	37.0	35.4
200.6	186.5	181.4	170.1	151.9	134.3	118.3
10.6	12.5	14.4	11.4	6.0	5.1	4.0
156.6	143.6	133.6	124.8	108.9	96.8	86.0
7,645	7,473	7,030	6,091	5,724	5,250	4,895

21

Net Earnings
(millions)



Shareholders' Equity
(millions)



SMITH KLINE & FRENCH LABORATORIES

DIRECTORS

Walter A. Munns	Thomas S. Gates
<i>Chairman</i>	
Samuel H. Ballam, Jr.	Courtlandt S. Gross
Carter L. Burgess	Lewis E. Harris
Morris Cheston	Samuel P. Martin, M.D.
Alfred J. D'Angelo	Thomas M. Rauch
Robert F. Dee	Miles Valentine
Stanley Fenwick	Donald van Roden

CORPORATE OFFICERS

Walter A. Munns, <i>Chairman of the Board</i>
Thomas M. Rauch, <i>President and Chief Executive Officer</i>
Robert F. Dee, <i>Executive Vice President</i>
Harold A. Clymer, <i>Vice President, Corporate Business Development</i>
Alfred J. D'Angelo, <i>Group Vice President, Ultrasonic Products and Corporate Technical Services</i>
Bryce Douglas, Ph.D., <i>Vice President, Pharmaceutical Research and Development</i>
Stanley Fenwick, <i>Group Vice President, International Operations</i>
Peter Godfrey, <i>Vice President, U.S. Consumer Products</i>
Lewis E. Harris, <i>Group Vice President, Medical Services and Instruments, and Animal Health Products</i>
22 John K. Nevin, <i>Vice President, Manufacturing-Pharmaceuticals</i>
William Steytler, Jr., <i>Vice President, Corporate Personnel and Communication</i>
Donald van Roden, <i>Group Vice President, Pharmaceuticals</i>
Hubert D. Vos, <i>Vice President, Corporate Planning and Finance</i>
Henry Wendt, III, <i>Vice President, Marketing-Pharmaceuticals</i>
Walter W. Beachboard, <i>Secretary</i>
Lester E. Hammar, <i>Controller</i>
William T. Rennie, <i>Treasurer</i>

PRINCIPAL SUBSIDIARY COMPANIES

American Polarizers, Inc., Reading, Pennsylvania
Avoset Food Corporation, Oakland, California
Branson Instruments, Inc., Danbury and Stamford, Connecticut
Menley & James Laboratories, Ltd., Philadelphia, Pennsylvania
Norden Laboratories, Inc., Lincoln, Nebraska
Sea & Ski Corporation, Reno, Nevada, and Philadelphia, Pennsylvania
Smith Kline Instruments, Inc., Palo Alto, California
SK&F Co., San Juan, Puerto Rico
Recherche et Industrie thérapeutiques, S.A., Genval, Belgium
Recherche et Industrie Thérapeutiques, S.A., Paris, France
Smith Kline & French Overseas Co., Philadelphia, Pennsylvania; Tokyo, Japan; Manila, Philippines
Smith Kline & French Inter-American Corporation, Philadelphia, Pennsylvania; Lima, Peru; San Juan, Puerto Rico; Buenos Aires, Argentina
Smith Kline & French Canada, Ltd., Montreal, Canada
Smith Kline & French Laboratories Limited, Welwyn Garden City, England
Smith Kline & French (Proprietary) Limited, Isando, Transvaal, South Africa
Smith Kline & French Laboratories (Australia) Limited, French's Forest, New South Wales, Australia
Smith Kline & French (India) Limited, Bangalore, India
Smith Kline & French, S.A., Mexico City, Mexico
Smith Kline & French, S.A.E., Alcalá de Henares, Spain
Smith Kline & French of Pakistan Limited, Karachi, Pakistan

Corporate Offices Philadelphia, Pa.
Manufacturing Facilities Pharmaceutical Products Philadelphia, Pa. San Juan, Puerto Rico Lincoln, Neb.
Consumer Products Philadelphia, Pa. Gustine, Calif. Washington Court House, Ohio Reno, Nev.
Instrument Products Palo Alto, Calif.
Ultrasonic Products Clark, N. J. Danbury, Conn. Shelton, Conn. Stamford, Conn.
International Australia Belgium Canada France India Italy Mexico The Netherlands Pakistan Philippines South Africa Spain United Kingdom
Research and Development Facilities Philadelphia, Pa. Upper Merion, Pa. Chester County, Pa. Lincoln, Neb. Gustine, Calif. Palo Alto, Calif. Danbury, Conn. Stamford, Conn. Australia Belgium Canada South Africa United Kingdom
Medical Laboratory Service Facilities Boston, Mass. Dallas, Tex. Los Angeles, Calif. St. Louis, Mo. San Francisco, Calif. Tampa, Fla. Edmonton, Canada

TRADEMARKS APPEARING IN THIS REPORT

ALAVON	—trademark for combination of trifluoperazine HCl and amobarbital	FELOCINE	—trademark for feline distemper vaccine used in veterinary medicine
C3	—trademark for cold-cough preparation	HEMOCCULT	—trademark for liquid and paper reagent for laboratory diagnostic testing
CENDEVAX	—trademark for rubella virus vaccine	JALONAC	—trademark for combination of trifluoperazine HCl and amobarbital (Germany)
CLINICULT	—trademark for laboratory diagnostic testing equipment	LEVOPA	—trademark for levodopa
CONTAC	—trademark for decongestant capsule and related products	LIFEGUARD SYSTEMS [®]	—trademark for cardiac monitoring medical instruments and cardiac monitoring systems
DOPTONE	—trademark for a fetal pulse detector and a blood flow detector	SEA & SKI	—trademark for sun care products
DUATROL	—trademark for combination of aluminum hydroxide, glycine, calcium carbonate and dimethylpolysiloxane (Canada)	SINE-OFF	—trademark for sinus headache preparation
DUCON	—trademark for an antacid	SONORAY	—trademark for ultrasonic nondestructive testing equipment
DYAZIDE	—trademark for combination of triamterene and hydrochlorothiazide	SPANBOLET	—trademark for sustained release bolus
DYRENIUM	—trademark for triamterene	STAFYTRACINE	—trademark for virginiamycin and tetracycline (Belgium at present)
EKOLINE 20	—trademark for a diagnostic ultrasonoscope	STELAZINE	—trademark for trifluoperazine HCl
ENDURACELL	—trademark for canine distemper and hepatitis vaccine	SUN-BAR	—trademark for polarized optical blanks
ENDURALL-R	—trademark for rabies vaccine used in veterinary medicine	THORAZINE	—trademark for chlorpromazine
ESKALAB	—trademark for clinical chemistry system	URISPAS	—trademark for an antispasmodic preparation
ESKALITH	—trademark for lithium carbonate		

COMMUNITY AFFAIRS

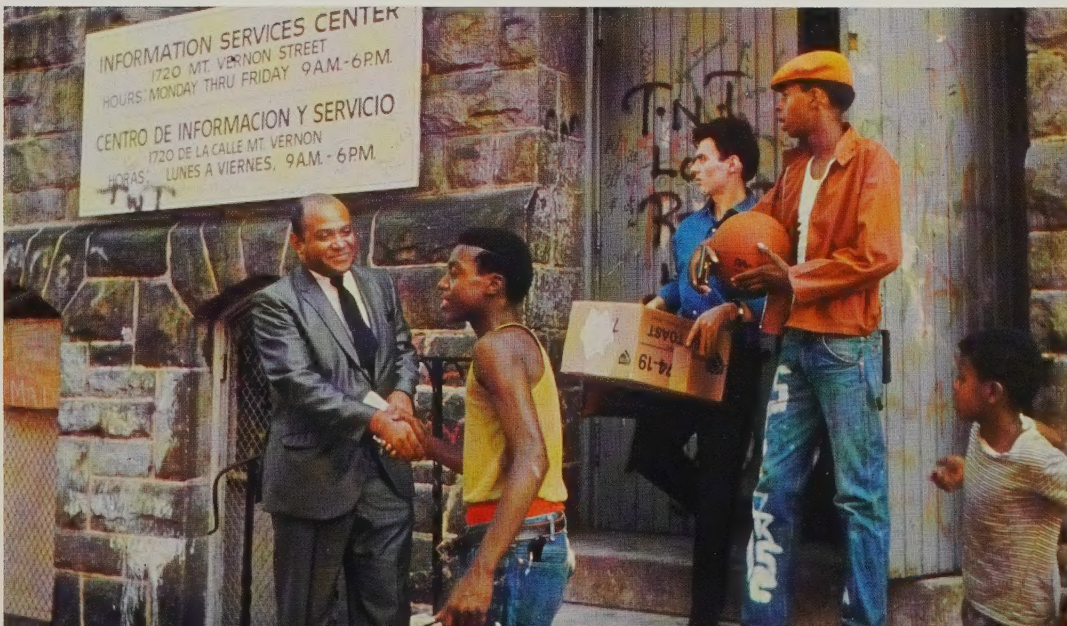
The Company continued its involvement in community affairs, especially in the Spring Garden area near our Philadelphia headquarters where there are a large number of disadvantaged residents. This community is much in need of environmental and social development.

Working through local leaders and groups, SK & F provides staff and funds for a variety of programs that help people in the community achieve personal and group objectives. We sponsor an Information Services Center, which provides personal problem-solving through use of existing community services, and we fund training, educational and recreational opportunities for local young men and women.

In 1970, we put on a year-round basis a program of employment, guidance and education for young people from the Spring Garden community. Known as "Potentials," this plan gives ambitious teenagers a chance to have working and learning experiences that will prepare them for broader opportunities at the completion of high school. The program includes community betterment work, as well as classroom sessions and college and career counseling.

The Company also continued its efforts to improve opportunities for minority employment. Although SK & F has made a commitment to play its part in solving community problems, we recognize that the task confronting cities today is enormous. It is our opinion that the business community must play an active role, along with government, in seeking and supporting solutions to protect minority rights and to improve the physical environment of our cities.

SK & F's Carver Portlock congratulates Potential team for outstanding performance





LOVE COSMETICS